

Message Text

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PAGE 01 BONN 07526 01 OF 02 091824Z

43

ACTION EB-07

INFO OCT-01 EUR-12 EA-10 ISO-00 SP-02 AID-05 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 L-02 H-02 PA-02 PRS-01 /110 W

----- 081684

R 091813Z MAY 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9971

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 07526

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING MAY 7 -
MAY 8 WAS A GERMAN HOLIDAY)

1. FOREIGN EXCHANGE MARKET: DURING THE REPORTING WEEK
THE DOLLAR WEAKENED BY ABOUT 2 PFENNIGS. SPOT AND
FORWARD DOLLARS DEVELOPED AS FOLLOWS:

FORWARD DOLLARS
(DISCOUNTS IN PCT.P.A.)
SPOT DOLLARS ONE-MONTH THREE-MONTH

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PAGE 02 BONN 07526 01 OF 02 091824Z

MAY 2 DM 2.3855 -1.5 -2.3

5	2.3750	-1.5	-2.3
6	2.3706	-1.0	-2.2
7	2.3660	-1.3	-2.0

WITHIN THE JOINT FLOAT THE DEUTSCHEMARK REMAINED THE WEAKEST CURRENCY. IN THE COURSE OF THE WEEK THE BUNDESBANK REPORTEDLY HAD TO INTERVENE WITH SALES OF DUTCH GUILDERS, BELGIAN FRANCS, AND SWEDISH CROWNS.

2. MONEY MARKET: DURING THE FIRST WEEK OF MAY THE GERMAN MONEY MARKET EASED WITH MONEY RATES DECLINING TO OR BELOW THE 5 PERCENT REDISCOUNT RATE. DURING THE REPORTING WEEK FRANKFURT INTER-BANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

MAY 2	5.7-5.3	4.9-5.1	4.8-5
5	5.2-4.9	4.5-4.8	4.7-5
6	4.6-4.8	4.5-4.8	4.7-5
7	4.8-5.0	4.6-4.9	4.7-5

3. BUNDESBANK FOREIGN POSITION: IN THE LAST WEEK OF APRIL (APRIL 24 - 30) THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.4 BILLION TO DM 83.7 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE FELL BY DM 252 MILLION WHILE GROSS LIABILITIES ROSE BY ABOUT 150 MILLION. IN THE FULL MONTH OF APRIL THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 2.5 BILLION DUE PRINCIPALLY TO BUNDESBANK INTERVENTIONS WITHIN THE JOINT FLOAT. HOLDINGS OF LIQUID FOREIGN EXCHANGE DECLINED BY DM 2.476 MILLION, WHILE OTHER ASSETS INCREASED BY DM 553 MILLION AND GROSS LIABILITIES BY ABOUT DM 600 MILLION.

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PAGE 01 BONN 07526 02 OF 02 091825Z

43

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INFO OCT-01 EUR-12 EA-10 ISO-00 SP-02 AID-05 NSC-05

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LAB-04 SIL-01 L-02 H-02 PA-02 PRS-01 /110 W

----- 081694

R 091813Z MAY 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9972

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 02 OF 02 BONN 07526

4. BANK LIQUIDITY: IN THE LAST WEEK OF APRIL BANK LIQUIDITY DECLINED BY DM 2.4 BILLION. PRINCIPAL FACTORS REDUCING LIQUIDITY WERE THE USUAL INCREASE IN CURRENCY IN CIRCULATION AT THE END OF A MONTH (DM 5.1 BILLION) AND AN INCREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK (DM 4.7 BILLION). THE ABOVE MENTIONED DECLINE IN THE BUNDESBANK'S NET FOREIGN POSITION FURTHER REDUCED LIQUIDITY. LIQUIDITY WAS INCREASED BY THE USUAL END-OF-MONTH PAYMENTS BY PUBLIC AUTHORITIES RESULTING IN A DECLINE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK BY DM 6.6 BILLION (INCLUDING A DM 1.7 BILLION DECLINE IN THE RECEIPTS OF THE FEDERAL GOVERNMENT'S DM UNCLASSIFIED

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PAGE 02 BONN 07526 02 OF 02 091825Z

2.5 BILLION STABILITY LOAN HELD IN A SPECIAL BUNDESBANK ACCOUNT). OTHER FACTORS, NET, INCREASED LIQUIDITY FURTHER BY DM 1.2 BILLION. THE BANKS FINANCED THE LIQUIDITY LOSS BY INCREASING REDISCOUNT BORROWINGS AT THE BUNDESBANK BY DM 1.5 BILLION AND LOMBARD BORROWINGS BY DM 0.9 BILLION.

5. BOND MARKET: DURING THE REPORTING WEEK FAZ AVERAGE YIELDS TO MATURITY OF OUTSTANDING DOMESTIC BONDS DEVELOPED AS FOLLOWS:

8 PERCENT 7 PERCENT 6 PERCENT

MAY 2	8.87	9.01	8.50
5	8.85	8.98	8.49
6	8.84	8.94	8.47
7	8.82	8.89	8.46

THE JAPANESE KAWASAKI STEEL CORPORATION ANNOUNCED THE
ISSUE OF A DM 100 MILLION LOAN (COUPON 8 3/4 PERCENT,
MAXIMUM MATURITY 7 YEARS, ISSUE PRICE NOT YET SETTLED).
HILLENBRAND

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05 JUL 2006

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